

LEGISLATIVE AUDIT COMMISSION



Review of
Chicago State University
Year Ended June 30, 2006

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**REVIEW: 4279
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2006**

FINDINGS/RECOMMENDATIONS - 12

**ACCEPTED - 7
IMPLEMENTED - 5**

REPEATED RECOMMENDATIONS - 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 9

This review summarizes the auditors' reports on Chicago State University for the year ended June 30, 2006, filed with the Legislative Audit Commission May 24, 2007. The auditors performed a compliance examination and a financial audit in accordance with State law and the requirements of the federal Single Audit Act and OMB Circular A-133. The auditors stated that the financial statements were fairly presented.

Chicago State University is governed by the Chicago State University Board of Trustees, which is comprised of seven members appointed by the Governor with the advice and consent of the State Senate. There is also one voting student member elected to a one-year term by the student body. Chicago State University is a public, comprehensive, urban institution of higher education located on the south side of Chicago. The University's mission is to: (1) provide access to higher education for residents of the region, the State and beyond, with an emphasis on meeting the educational need, undergraduate through doctoral levels, of promising graduates from outstanding secondary schools, as well as, educating students where academic and personal growth potential and promise may have been inhibited by lack of economic, social or educational opportunity and (2) produce graduates who are responsible, discerning and informed global citizens with a commitment to lifelong learning and service.

Dr. Elnora D. Daniel was appointed President of Chicago State University on August 1, 1998, and was President of the University during the audit period. Dr. Daniel had no previous association with the University.

General Information

The following is a summary of net assets of the University.

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	2006	2005
Assets		
Current Assets	\$ 19,559,388	\$ 18,822,505
Non-current Assets	\$ 137,269,316	\$ 104,234,373
Total Assets	\$ 156,828,704	\$ 123,056,878
Total Liabilities	\$ 44,639,147	\$ 44,498,075
Net Assets	\$ 112,189,557	\$ 78,558,803

Two standard enrollment statistics for colleges and universities are: head count (number of students), and credit hours. The data indicated below for head count is as of the spring semester and the credit hour data is for the entire academic year:

Head Count		
	2006	2005
Undergraduate	4,790	4,619
Graduate	1,864	2,024
TOTAL	6,886	6,752

Credit Hours		
	2006	2005
Undergraduate	119,884	114,945
Graduate	26,849	26,658
TOTAL	146,733	141,603

The average number of University employees is as follows:

	2006	2005
Faculty/civil service, & administrative	950	1,015
Students	298	281
TOTAL	1,248	1,296

Full-time equivalent cost per student per semester in 2006 was \$5,948 compared to \$5,543 in 2005.

Expenditures From Appropriations and the University Income Fund

Appendix A presents a summary of appropriations and expenditures for 2006 and 2005. The General Assembly appropriated \$38,660,300 to the University in FY06, all from the General Revenue Fund, compared to \$38,845,285 in FY05. Total Income Fund revenues were \$24,952,491 in FY06 compared to \$21,430,063 in FY05. Total expenditures from appropriations decreased from \$38,845,285 in FY05 to \$38,660,300 in FY06 and that was based entirely on the appropriation. The University spent \$22,541,282 from the Income Fund in FY06 compared to \$17,879,126 in FY05, an increase of 26.1%. Previously, monies in the Income Fund were appropriated to the various Universities; however, in August 1996 legislation was enacted which allowed the Universities to retain Income Fund receipts, and thus, Income Fund receipts previously retained with the State were transferred to the Universities.

Current Revenues and Expenditures

The table appearing in Appendix B presents a summary of revenues, expenditures, net changes in assets, and cash flows for the years ended June 30, 2006 and 2005. State appropriations are the single largest source of revenue, followed by federal grants and contracts, capital appropriations and grants, and tuition and fees. The largest areas of expenditure are instruction (34.5%), State fringe benefits (12.6%), student services (10.4%), and institutional support (8.8%).

Accounts Receivable

Appendix C provides a summary of the University's accounts receivable for FY06 and FY05. Net accounts receivable increased from almost \$7.4 million in FY05 to almost \$8.7 million in FY06. More than \$5 million in unpaid student tuition and fees account for 48.7% of the gross receivable, while \$4.8 million in federal, State and private grants and contracts accounted for 46.4% of the gross receivable. Of the \$5.6 million gross receivable due the current unrestricted fund, almost \$2.5 million is current while almost \$1.7 million is considered uncollectible. Accounts receivable for student loans are not included in Appendix C.

Property and Equipment

Appendix D summarizes the changes in property and equipment. The beginning balance as of July 1, 2005 was \$179,753,000, compared to an ending balance at June 30, 2006 of \$216,006,000, an increase of 20%.

Foundation Payments to the University

Chicago State University Foundation is considered a university-related organization. During FY06, CSU provided administrative support services to the Foundation valued at \$524,039. The Foundation does not directly pay the University for these services; however, the Foundation reciprocates by providing fund raising and other services to the University. The Foundation provided a total of \$858,812 to the University in FY06, compared to \$1,568,170 to the University in FY05. Appendix E provides a summary of all funds that the Foundation gave to the University during the audit period.

Tuition and Fee Waivers

During FY06, Chicago State University granted \$1,791,000 in tuition and fee waivers (both undergraduate and graduate). This represents an increase of \$411,800, or 29.9%, as compared to the total tuition and fee waivers granted in FY05. The two largest categories of waivers are veterans at \$432,000 and athletic at \$381,800.

Accountants' Findings and Recommendations

Condensed below are the twelve findings and recommendations presented in the compliance examination report. There were five repeated recommendations. The following recommendations are classified on the basis of information provided by Dr. Alan D. Robertson, Vice President of Administration and Financial Affairs, Chicago State University, via electronic mail received November 20, 2007.

Accepted or Implemented

- 1. Improve system for identifying eligibility requirements for voluntary nonexchange transactions and properly account for such transactions in accordance with GAAP.**

Finding: The University did not properly interpret and apply generally accepted accounting principles in accounting and financial reporting for nonexchange transactions.

When the auditors reviewed the six largest grant revenue deferrals, they noted that five of these agreements did not stipulate an eligibility requirement. Therefore, revenue should have been recognized and not deferred for these voluntary nonexchange transactions. The actual error identified was \$291,883. The auditors have recorded a passed adjustment of the projected error in the amount of \$584,602.

Updated Response: The University has implemented appropriate procedures to apply Government Accounting Standards Board (GASB) Statement No. 33 Accounting and Financial Reporting for Non-exchange Transactions.

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The University has established a process to receive all the grant agreements from its Office of Sponsored Programs and to review the agreements to determine the applicability and compliance with the GASB-33.

2. Implement a system of positive time reporting to be used for both payroll and Ethics Act purposes to ensure that time worked and compensated absences used are reported promptly and accurately.

Finding: The University did not properly account for compensated absences of employees of the University due to inaccurate time reporting and untimely filing of time sheets.

The auditors judgmentally selected 10 employees of the University and noted discrepancies with four of their submitted records related to compensated absences reporting as follows:

- The accrued compensated absence usage reported on the positive time reporting did not agree to the usage reported to the payroll department on the sick, vacation, and non-cumulative sick time cards. The usage of these days reported to payroll were understated by 10 days, 21 days, 12.5 days, and 18 days. Therefore, the University's compensated absence schedules do not accurately reflect usage for certain employees.
- Several of the positive time reporting cards could not be obtained from the University. Several of the positive time reporting cards were not turned in timely and some did not have a supervisor's signature included on them.

University officials stated that the positive time reporting cards are designed to ensure compliance with the Ethics Act. The positive time reporting cards are not utilized to update compensated absences records as it will produce inaccurate results.

Updated Response: The University has implemented the recommendations and reviewed all employee leave records. The University's Payroll department distributed the leave records to its various departments. Each department certified the accuracy of the records, and corrected time reporting discrepancies if necessary. This data was then used to update the leave records. Further, the University implemented procedures to track time for administrative staff.

The University has plans to automate the time reporting system using the existing administrative software system by December 31, 2008. This system will allow the University to update its leave records as part of the payroll process. The University had initially planned to implement the automated system by December 31, 2007; however, staff turnover in the Payroll Department and Accounting forced the implementation to be phased in through December 31, 2008.

Accepted or Implemented – continued

- 3. Improve control procedures to ensure that payments are only made once a proper invoice with appropriate documentation and approval is received, and maintain a filing system that allows location of supporting documentation (including documentation of the necessity for any non-standard travel costs) for all invoices paid as well as student loan promissory notes. Further, timely reconcile travel advances with actual invoices submitted by travelers, follow up on any exceptions noted, and recoup any funds due to the University. (Repeated-2003)**

Finding: The University did not maintain promissory notes related to the Nursing Student Loan Program and did not have supporting documentation and proper approvals for certain expenditures charged to federal programs. The University charged lodging and per diem rates in excess of rates allowed by State travel regulations, and charged expenditures to the wrong federal program. Further, certain equipment purchased with Federal funds had not been properly recorded in University property control records. Some of the items noted are as follows:

- The University was unable to provide the notes for 54 outstanding Nursing Student Loans totaling \$43,689. These loans were originally awarded approximately 25 years ago.
- Three of forty expenditures totaling \$43,382 for furniture and vehicles were not properly recorded or tracked in the University's property control records.
- Four of forty expenditures totaling \$67,817, consisting primarily of travel prepayments, were missing the appropriate supporting documentation, final invoices, or were incomplete.
- Three of forty expenditures totaling \$5,282 were for prepaid per-diem in excess of the State allowed per diem reimbursement.

University officials stated that the Nursing Student Loan Program dates back to the 1970s and 1980s and the promissory notes were misplaced due to turnover of staff handling student loans. There had been no new loans under the program from those dates. In addition, University officials stated that many of the remaining exceptions occurred during the early part of fiscal year 2006, before the University established control procedures.

Response: Accepted. The University had established control procedures to ensure that prepaid costs are subsequently compared to final actual invoices to ensure prepayments were proper. The University will develop procedures to ensure compliance with travel guidelines and exceptions properly explained and submitted to the Travel Control Board, where necessary. The vehicle was included on the schedule of Property and Equipment supporting the fixed assets reported on its financial statements. The University will arrange to reimburse the Department of Health and Human Services for these loans.

Updated Response: The University wrote off the Nursing Student Loans reimbursing the Department of Health and Human Services. The University adopted a number of measures to implement the auditors' recommendations as follows:

- Grant Accountants have been instructed to enforce Higher Education Travel Control Board regulations.
- Grants and Accounting must ensure all required documentation is attached to the voucher before payment is approved.
- Designated a staff to log all prepayments (advances) since July 1, 2007 and compare to actual invoices / documents upon trip completion.
- Compiled a checklist for voucher processing to ensure compliance with travel regulations.
- Performed a post-review of travel vouchers in FY07 and corrected deficiencies identified.
- Conducted training seminar for Accounts Payable staff responsible for grant voucher processing.

4. Correct procedures to ensure that all financial aid received from outside scholarships are considered when determining students' financial need.

Finding: The University did not include scholarships received from other sources as part of student resources. The condition caused an over-award of student financial aid.

Auditors selected a sample of 40 students who received scholarships from the Chicago State University Foundation. Of those 40 students, 31 were awarded Title IV student financial assistance by the University. The auditors then performed tests to determine if those scholarships were included in the University's student needs analysis and noted 11 students who were overawarded/overpaid \$39,048 of Title IV student financial assistance because the scholarships received from outside sources were not included in their calculation of financial need.

Response: Accepted. The University will develop proper procedures to ensure that all financial aid received from outside scholarships are considered when determining students' financial need.

Updated Response: The University implemented the recommendation and conducted a review of all scholarship recipients' records to ensure the "over-award" condition does not exist for fiscal 2007. Further, the University hired a new staff member in the Financial Aid Office to ensure that all financial aid received from outside scholarships are considered when determining students' financial need.

Accepted or Implemented – continued

5. Implement procedures to ensure compliance with the Acts and require all employees to adhere to regulations established by the Higher Education Travel Control Board and Travel Regulation Council.

Finding: The University did not always follow travel policies by the Illinois Higher Education Travel Control Board and the Department of Central Management Services.

While testing charges to the University's credit card, the following exceptions were noted:

- A number of restaurant charges totaling \$6,842 were identified as lunches or dinners of which only one receipt totaling \$995 was included in the payment package. The payment documentation did not identify any specific business purpose for these expenditures. After bringing this matter to the University's attention, the University provided a spreadsheet identifying the purpose of each of the meal charges. The employee was not on travel status when the charges were incurred.
- Thirteen charges, totaling \$3,932, were for tickets to various theatrical events. Of these 13 charges, eight had no receipts on the payment package except the credit card statement, and none of them listed the business purpose or participants for these expenditures. After bringing this matter to the University's attention, the University provided a spreadsheet identifying the participants at each event.
- Eighteen charges, totaling \$2,027, were for miscellaneous gifts and fees. Of these items, 14 had no receipts attached to the payment packages except the credit card statement.
- At least 36 expenditures, totaling \$19,241, were identified as being supplies or equipment. However, only two receipts were included with the payment packages. Three of five equipment items examined were not assigned a property tag from the University or included in the property control records.

While testing travel expenditures (credit card charges and travel vouchers), the auditors noted:

- Direct bill payments were not detailed on the employee's travel vouchers. Many items were directly charged to the University (airfare, hotel, meals, etc.) and were not detailed out on the travel vouchers.
- At least 18 charges on the University credit card were for hotels, airlines, or other travel accommodations (while on travel status). These charges, however, did not have any receipts or invoices attached to the payment package. All of these payments were made from the credit card statement invoice only, without supporting receipts.
- A total of 31 charges did not include any information as to the purpose/itinerary of the trip. After bringing this matter to the University's attention, the University provided some of the meeting purposes and itineraries.

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- For 10 charges, the rates for hotels were in excess of the amounts allowed by the Illinois Higher Education Travel Control Board. These charges were on the University credit card bills and there was no documentation identifying whether the hotels were for conference hotels and if these accommodations were the least expensive room available. In some instances, there were no receipts to determine if the rates charged were allowable.
- Actual meal costs were being charged to the University instead of a per diem allowance as allowed by the Board. In many instances, there was not enough information to determine if the actual meal costs were greater than the per diem which would have been allowed to be claimed.
- There were instances where unallowable expenditures were being charged to the University such as movies, gifts, alcohol, and supplemental charges related to a seminar aboard a cruise. The total amount of these items could not be readily determined.
- In three instances, a total of \$477 was charged to the University for a no-show hotel fee. In two instances, a total of \$50 was charged to the University for an early departure fee.
- Some payments pertained to 2 leadership seminars conducted aboard cruises, where the University was charged for the most expensive room offered. Also, included in these payments was a two night pre-cruise hotel/reception at a cost of \$299 per person. Total charges were \$7,654. This condition involves a different party than the situation described in Finding Number 8 related to a leadership seminar on a Caribbean cruise.
- In four instances, the charges pertained to extended stays in hotels with no documentation as to the reason and instances where an automobile was rented for an extended period with no documentation available.
- In one instance, the airfare was upgraded to first class at an additional total cost of \$1,500 for two individuals. The reason for the upgrade was not documented on a travel voucher.
- In one instance, the hotel charge on the credit card of \$2,871 was not reconciled with the hotel invoice of \$2,746. There were also 3 instances where the traveler did not attend a scheduled conference and the credits to the University credit card were not reconciled to ensure that the University received all of its appropriate charge reversals.

University officials stated they believe the conditions cited result from a combination of timing, availability and urgent circumstances that were identified when the expenditures were incurred. The exceptions were also partly due to significant staff turnover in accounts payable and purchasing in fiscal year 2005 and new employees' attempts to surmount the usual learning curve.

University officials also stated the extended services were justified considering the flight schedules, penalties/change fees on the flights and flight/vehicle availability. Some vehicle rentals charge lower fees for week rental than a per day rental. As for the upgrades, these upgrades were necessary due to the length/nature of the trip and because the travelers needed to meet to finalize preparations for the trip/mission.

Accepted or Implemented - continued

Response: Accepted. The University will schedule staff training on voucher processing to ensure that University procedures and applicable State regulations are complied with. The University will implement procedures in voucher processing to document exceptions and track their subsequent disposition.

Updated Response: The University has adopted the auditors' recommendation and developed and implemented the following procedures:

- The University was reimbursed for the charges reported per this finding by the responsible staff.
- Internal Audit reviewed all American Express documentation to determine if proper receipts were attached with the payment vouchers and to ensure that the University was reimbursed for any charges not related to the University business.
- The University instructed its Accounts Payable Department to enforce all travel and credit card requirements to ensure compliance by all University staff.
- The University's Board of Trustees' Audit Committee instituted a procedure to review all the travel conducted by the University's senior management.

6. Execute all contracts prior to the commencement of services.

Finding: The University's internal controls over contracts need to be improved. During testing of expenditures and voucher processing, the auditors had previously noted that there was a payment made by the University to the Chicago State University Foundation for \$3.5 million. In the original contract, the grant period covered July 1, 2005 through June 30, 2006; however the payment of \$3,500,000 was made on February 1, 2006.

University officials stated that the employee who provided the auditors with the contract executed after the commencement date did not see it as a serious problem due to the contract being between the University and the Foundation and not with an outside vendor. University officials also stated that there was a presumption that the agreement was made at the time of the service and that it was covered by the master contract between the University and the Foundation.

Response: Accepted. This was an unusual and isolated situation. The appropriate administrative actions were taken regarding this situation.

Updated Response: The University strengthened its internal controls pertaining to the execution of all contracts. The University adopted appropriate measures to ensure recommendations are properly implemented.

The following are the specific corrective action plans taken:

- All contracts must be executed prior to commencement of services. Upon review,

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any exceptions noted, should include a letter from the applicable Vice President to explain why services started prior to execution.

- Compiled a checklist for reviewing contractual vouchers which would include the applicable criteria for its Purchasing and Accounts Payable departments.
- Implemented a new streamlined and decentralized approval process, whereby each Vice President is authorized to approve contracts up to a certain dollar threshold. Prior to this procedure, the University President was the only one to approve any contracts.

7. Require all employees to maintain time sheets in compliance with the statute. (Repeated-2005)

Finding: The University has not maintained time sheets for all its employees in compliance with the State Officials and Employees Ethics Act.

Of the 30 employees' time sheets that were examined for testing compliance with the Act, 21 did not submit time sheets documenting the time spent each day on official State business to the nearest quarter hour.

University officials stated that all State Universities have mandated faculty to report time consistently. The President's council and the individual Universities will continue to discuss and explore faculty time reporting.

Updated Response: The University plans to implement an automated time-keeping system to comply with the Ethics Act.

The University will automate its time-keeping system by December 31, 2008. This system will allow the University to maintain time-keeping function electronically and will be required of the entire workforce including the faculty. The University believes that the implementation of this system will help the University to ensure compliance with the Ethics Act. The University had initially planned to implement the automated system by December 31, 2007; however, the University could not meet its deadline due to the staff turnover in the Payroll Department and was forced to extend its plan to December 31, 2008.

In addition, The University will pursue the waiver of the requirement for its workforce until the implementation of said system. The University believes that full compliance with this mandate will require time to reach agreement with faculty and the various labor unions or an amendment to the legislation.

8. Improve procedures that ensure travel expenditures are proper and comply with established regulations and policies. (Repeated-2005)

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Findings: University employees submitted travel reimbursement requests for travel claims that were not in accordance with the Illinois Travel Regulation Council's travel rules or University policy and procedures.

The auditors' examination of 26 travel reimbursements/invoices revealed several issues as follows:

- The University President did not timely approve one reimbursement request totaling \$13,751 for travel outside the 48 contiguous states.
- One invoice (\$1,503) included collision damage waiver fees (\$44) charged for a car rental, even though the Illinois Travel Regulation Council's rules state that these are not reimbursable expenses.
- Two invoices/reimbursement requests included lodging rates in excess of those allowed by the Travel Control Board. The Travel Control Board allows \$110 per night for all cities outside of Illinois. The University allowed charges of \$205 and \$149 per night. The University could not provide any evidence of these being conference hotels and the least costly rooms available. Neither of these exceptions was presented to the Travel Control Board for approval of the exception.
- Two invoices/reimbursement requests included payments for extended stays beyond the dates of conferences. There was no documentation on the requests indicating the reason additional time was spent at the hotel. The payments for these extended periods were \$214 and \$170.
- Three invoice/reimbursement requests included payments for flight or room accommodation upgrades. There was no indication on the original documents of the necessity for the upgrades. The amounts of these upgrades could not be readily determinable.
- Three individuals used a privately owned vehicle for University travel. The University did not have any documentation or a certification that these people were properly licensed.
- One expenditure was for a nine-day Leadership Seminar in conjunction with a nine-day cruise of the Caribbean. We noted that this expenditure included room accommodations at the most expensive rate available (\$2,999) instead of the least expensive accommodations offered (\$1,499). The University did not provide any evidence of the extra cost being reimbursed by the employee. No travel voucher was submitted by the employee for this trip. This condition involves a different party than the situation described in Finding Number 5.

University officials stated that the conditions were the result of a combination of timing, availability and urgent circumstances that were identified when the reimbursement or direct payment voucher was turned in, after the Travel Control Board reports were processed. The other exceptions were also partly due to significant staff turnover in accounts payable and purchasing in fiscal year 2005 and new employees' attempts to surmount the usual learning curve. As for the extended stay, the fiscal officer who approved the stay indicated that the stay was necessary considering the flight schedules and the penalties/change fees on the flights justify the costs of the extra day. As for the upgrades, these upgrades were necessary due to the length of the flight and because the travelers needed to meet to finalize preparations for the trip/mission.

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Response: Accepted. The University will schedule staff training on voucher processing to ensure that University's procedures and applicable State regulations are complied with. The University will develop procedures to ensure compliance with travel guidelines and exceptions properly explained and submitted to the Travel Control Board, where necessary. The University will implement procedures in voucher processing to document exceptions and track their subsequent disposition.

Updated Response: The University adopted measures to improve its procedures that ensure travel expenditures are appropriate and in compliance with all applicable regulations and policies. The University implemented the following procedures:

- The University was reimbursed for the excess charges of \$1,499 reported per this finding by the traveler.
- The University authorized its Accounts Payable Department to enforce all applicable travel requirements to ensure compliance by all University staff.
- The University's Board of Trustees' Audit Committee instituted a procedure to review all the travel conducted by the University's senior management.
- A list of suggested guidelines based on the applicable travel regulations both by internal and external bodies was compiled for training to be used by the Purchasing and Accounts Payable staff responsible for processing the travel related vouchers.

9. Adhere to procedures to ensure that the property and equipment records are properly maintained. Further, adhere to the requirements of SAMS and submit their C-15 reports to the Office of the Comptroller accurately. (Repeated-1997)

Finding: The University had inadequate controls over its property and equipment and related records. In performing tests of University equipment, the auditors found exceptions with 40 of the 100 items that were sampled and the following exceptions were noted:

- Twelve items (primarily computer equipment and library collections), with a cost of \$74,980, could not be located by University personnel.
- Three items, with an approximate cost of \$28,050, were found at a location other than the location listed in the property control records. One item was listed as being scrapped but was actually found on the University campus.
- Two items, with a cost of \$1,836, were physically inspected and appeared to be obsolete.
- Six items were assigned tag numbers, but they had no tags affixed. For one expenditure, the University could not provide tag numbers for one expenditure, and for three expenditures, the University provided with tag numbers, but the numbers could not be traced to the University's property control records.

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Auditors also noted that the University submitted a property listing to the Department of Central Management Services that was inaccurate as follows:

- One item was listed twice on the listing.
- Five items (segways, car, mixer, and a body mass analyzer), with a total cost of \$74,789, were not included on the listing.

Six items which were incorrectly reported on the University deletion reports.

In addition, the University reported the current quarter Capital Development Board transfers on its C-15 reports as additions to the current quarter instead of transfers in from CDB.

University officials stated these exceptions occurred due to lack of staff and staff turnover. In addition, during the fiscal year and during the audit, there were campus-wide upgrades from one vendor's computer equipment to another's, room assignment changes, and library moves that property control staff were heavily involved in. Consequently, there has been a backlog in many functions, including the updating of the property records, reconciliation and investigation of physical count results, and reconciliation of expenditure records and property additions. In addition, the tags may have fallen-off certain items. The University officials maintain that the reporting of current quarter transfers from Capital Development Board in the quarter it belongs to, yields more timely and accurate presentation of such transfers and avoids the duplication of time and effort.

Response: Accepted. The University continues its efforts to improve controls and procedures over equipment. The item (a metal filing cabinet) was reported by the Fiscal Officer to Property Control as scrap and appropriately removed from the Property Module. However, the item was retained by another department for storage until they purchased a replacement. The University plans to appeal to the Illinois Comptroller' Office to change its procedures pertaining to reporting of CDB transfers. The current accounting systems utilized by the state agencies and universities allow recording such transfers in the quarter they belong.

Updated Response: The University continues its efforts to improve controls and procedures over equipment and will ensure its policies and procedures related to property and equipment records are followed to properly safeguard assets in accordance with applicable rules and regulations. The University implemented additional control procedures to ensure the property listing to the Department of Central Management Services is accurate and the cost of each item is properly listed, these included the following measures in FY 2007:

- An asset management firm was hired to conduct a complete physical inventory and to reconcile all inventory equipment over \$500 to the university records.
- The University implemented an automated recording process in early part of fiscal 2008. This process allows to record property items processed by its Purchasing Module into its Property Module.
- The University hired a manager for its Property Control Department in the early part of the second quarter of fiscal 2008. The University believes that the addition of this staff

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will assist the University to ensure compliance by its University community with the applicable property regulations and policies.

- The University revised all C-15 reports in accordance with the auditors' recommendations to properly report the transfers from Capital Development Board (CDB) as required by the Statewide Accounting Management System (SAMS) Procedure (29.20.10), which states that current quarter transfers from CDB are to be reported in the column identified as such on the C-15 report.
- The University started to use bar codes to tag its equipment.
- The University will review and adjust the Department of Central Management Services annual property report for duplicates, missing information and the accuracy of acquisition cost recorded. The University applied additional procedures to ensure its deletions are properly reported.

10. Improve procedures for calculating and reporting employee fringe benefits.

Finding: The University calculated the amount of working condition fringe benefits from the personal use of a State vehicle but failed to add the fringe benefit to the employee's federal and state taxable income reported on Form W-2. In addition, the University did not calculate and report the taxable fringe benefit of family members traveling with the employee.

The auditors' testing of taxable working condition fringe benefits reporting revealed that the University had calculated the amount of fringe benefits for the personal use of a State vehicle totaling \$11,949. The University, however, failed to add the fringe benefit amount to the employee's federal and state taxable income on Form W-2. The amount was correctly added to the Medicare wage, but was not reported as taxable wages on the employee's W-2. In addition, the employee's employment contract provided for the University to pay up to \$10,000 of travel expenses of the employee's spouse, dependents, or other individuals. Although provided for in the employment contract, this fringe benefit is still considered compensation by the Internal Revenue Service. The taxable fringe benefit for the employee's family members traveling with the employee (at the expense of the University) was not readily determinable for calendar year 2005, and none was reported.

Response: Accepted. The University will obtain an IRS ruling on whether certain items are taxable fringe benefits. The University will comply with the IRS determination as applicable.

Updated Response: The University adopted the auditors' recommendations. The University recomputed the employee's fringe benefits and amended the employee's W-2.

Accepted or Implemented – concluded

11. Implement procedures to ensure all contracts over \$10,000, \$5,000 for professional and artistic contracts, are filed with the Illinois Office of the Comptroller in accordance with State statutes and guidelines. (Repeated-2005)

Finding: Some University contracts were not on file with the Illinois Office of the Comptroller. The auditors' testing of 25 contractual service expenditures included six contracts which were not on file with the State Comptroller's Office and two that were not filed within 15 days of execution.

Updated Response: The University instructed its Purchasing Department to ensure compliance with the Illinois Procurement Code and SAMS procedure. The University will coordinate with the Illinois Office of the Comptroller to ensure that contracts submitted by the University are received and acknowledged. This finding should not recur in FY08.

12. Comply with the SAMS Manual and ensure that contracts are fully executed prior to commencement.

Findings: The University's contracting procedures need to be improved. The auditors noted the following upon examination of 22 contracts:

- Two of 22 contracts were dated by a University official who signed them, but the date of signature was after the services commenced. The total amount of services provided prior to the approval date was not determinable. One contract was for \$70 per hour was not to exceed \$10,000. The second contract was for \$14,734.
- Auditors also noted another situation where a contract should have been prepared and executed, however one was not. This involved the rental of an electrical generator. This generator was an emergency purchase; however, neither an emergency purchase affidavit nor a written contract was ever completed. The need to rent the generator ran much longer than expected and eventually surpassed the criteria threshold requiring bidding and a contract. The total amount expended was \$39,761.

Response: Accepted. The University will enhance its processing procedures to provide a review of contracts as they are encumbered in the system to ensure compliance with contractual service regulations.

Updated Response: The University instructed its Purchasing Department to ensure compliance with the Illinois Procurement Code and SAMS procedure. The University believes this finding should not recur in fiscal 2008. The University strengthened its internal controls pertaining to the execution of all contracts. The University adopted appropriate measures to ensure the recommendations are properly implemented.

The following are the specific corrective action plans implemented:

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- All contracts must be executed prior to commencement of services. Upon review, any exceptions noted, should include a letter from the applicable vice presidents to explain why services started prior to execution. In addition the exception should be noted at the time of processing and approved by the appropriate university official. Further, a letter of explanation should be obtained if services started prior to execution.
- Compiled a checklist for reviewing contractual vouchers which would include the applicable criteria for its Purchasing and Accounts Payable departments and educated staff on its use.
- Implemented a new streamlined and decentralized approval process, to authorize vice presidents to approve contracts up to a certain dollar threshold. Prior to this procedure, the University President was the only one to approve any contracts. Under the new procedure, the University President will review and sign all contracts over \$10,000.
- Fiscal officers must monitor all contracts that have the potential to exceed the purchase order amount.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services, to insure the integrity of State records or to avoid lapsing or loss of federal or donated funds. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY06, CSU filed two emergency purchase affidavits totaling \$85,205.00 as follows:

- \$49,630.00 for a mobile home for the HIV/AIDS community program; and
- \$34,575.00 for repairs to a dormitory.

Headquarters Designation

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

In a form filed July 11, 2006, CSU stated that no employees worked the majority of time away from their official headquarters.